

NORTH CENTRAL MICHIGAN COLLEGE  
FINANCIAL STATEMENTS  
AND  
ADDITIONAL REPORTS REQUIRED BY  
OMB CIRCULAR A-133  
for the years ended June 30, 2008 and 2007

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October 7, 2008

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of  
North Central Michigan College:

We have audited the accompanying basic financial statements of North Central Michigan College as of June 30, 2008 and 2007 and for the years then ended, as listed in the table of contents. These basic financial statements are the responsibility of North Central Michigan College's management. Our responsibility is to express an opinion on these basic financial statements based on our audit. We did not audit the financial statements of the North Central Michigan College Foundation (a blended component unit) which represents 16.5 percent of the total assets and 2.2 percent of the total revenues of North Central Michigan College. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the North Central Michigan College Foundation, is based on the reports of other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the North Central Michigan College Foundation were not audited in accordance with *Government Auditing Standards*. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the basic financial statements referred to above present fairly, in all material respects, the financial position of North Central Michigan College as of June 30, 2008 and 2007, and the changes in its financial position and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 2008 on our consideration of North Central Michigan College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The Management's Discussion and Analysis presented on pages 3 through 10 is not a required part of the basic financial statements but is supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

*Smolinski & Christman, P.C.*

## **Introduction**

The College's financial report consists of three basic financial statements: the Balance Sheet which presents the assets, liabilities and net assets of the institution as of the end of the fiscal year; the Statement of Revenues, Expenses and Changes in Net Assets, which reflects revenues and expenses recognized during the fiscal year; and the Statement of Cash Flows, which provides information on all of the cash inflows and outflows for the institution by major category during the fiscal year. These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) pronouncements.

In compliance with GASB Statement No. 39 "Determining Whether Certain Organizations are Component Units," the North Central Michigan College Foundation is reported as a component unit of the College. Separately issued financial statements for the Foundation are also available by contacting the Foundation office.

The following discussion and analysis provides an overview of the financial position and activities of North Central Michigan College for the year ended June 30, 2008. Management has prepared this discussion along with the financial statements and related footnote disclosures. Following the basic financial statements and footnotes are two supplementary schedules, the Combining Balance Sheet and the Combining Statement of Revenues, Expenses, Transfers and Changes in Net Assets. Though GASB does not require this information be present for a fair and complete presentation, the statements do provide additional information regarding the various funds and activities of the College that is not disclosed in the basic statements.

## **Financial Highlights**

The College's financial position remained strong at June 30, 2008, with assets of \$29.4 million and liabilities of \$4.4 million. Of the liabilities, \$1.4 million are due within one year and \$3 million are due beyond one year. Net assets, which represent the residual interest in the College's assets after liabilities are deducted, are \$25.0 million. Of the net assets, \$13.4 million is invested in capital assets, net of related debt; \$2.3 million is restricted; and \$9.3 million is unrestricted. The total increase in net assets for the year was \$1.09 million.

The College faced challenges over the past year posed by uncertainty of state appropriations and rising health care costs. Internal budget reductions and reallocations focused resources on College priorities. These financial statements reflect college-wide departmental savings in an effort to balance the budget with the anticipation of further budget reductions.

## **The Balance Sheet and the Statement of Revenues, Expenses and Changes in Net Assets.**

These two statements will help the reader answer the question, "Is North Central Michigan College as a whole, better or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Revenues, Expenses, and Changes in Net Assets report information on the College as a whole and on its activities in a way that helps answer this question. When revenues and other support exceed expenses, the result is an increase in net assets. When the reverse occurs, the result is a decrease in net assets. The relationship between revenues and expenses may be thought of as North Central Michigan College's operating results.

These two statements report the College's net assets and net asset changes. One can think of net assets – the difference between assets and liabilities – as one way to measure the College's financial health, or financial position. Over time, increases or decreases in the net assets are one indicator of whether the College's financial health is improving or deteriorating. Many other non-financial factors, such as the trend in student applications, student retention, condition of the buildings, and strength of the faculty also need to be considered to assess the overall health of the College.

These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector institutions. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

## Net Assets

Total net assets increased by \$1.1 million to \$25.0 million. Total unrestricted net assets are \$9.3 million. Of this total, \$2 million is designated for maintenance and replacement of facilities, \$2.7 million for replacement of equipment, sabbaticals and other programs, and \$.3 million for auxiliary activities. The remaining \$4.3 million is unrestricted, of which \$2.8 million is from the Foundation and \$1.5 million is in the General Fund.

Following is a comparison of the major components of the net assets of the College and operation results for years ended June 30, 2008 and 2007:

### Net Assets as of June 30 (in millions)

	2008	2007	Increase (Decrease)	Percent Change
Current assets	\$ 7.3	\$ 5.5	\$ 1.8	
Non-current assets:				
Capital assets, net of depreciation	16.4	16.3	0.1	
Other	5.7	6.7	(1.0)	
Total Assets	29.4	28.5	\$ .9	3.2%
Current liabilities	\$ 1.4	\$ 1.2	\$ .2	
Long-term liabilities	3.0	3.3	(0.3)	
Net assets:				
Invested in capital assets	13.4	12.9	0.5	
Restricted-Expendable	.9	1.2	(0.3)	
Restricted-Nonexpendable	1.4	1.3	0.1	
Unrestricted	9.3	8.6	0.7	
Total net assets	25.0	24.0	1.0	4.2%
Total liabilities and net assets	\$ 29.4	\$ 28.5	\$ .9	3.2%

## Operating Results for the Year Ended June 30 (in millions)

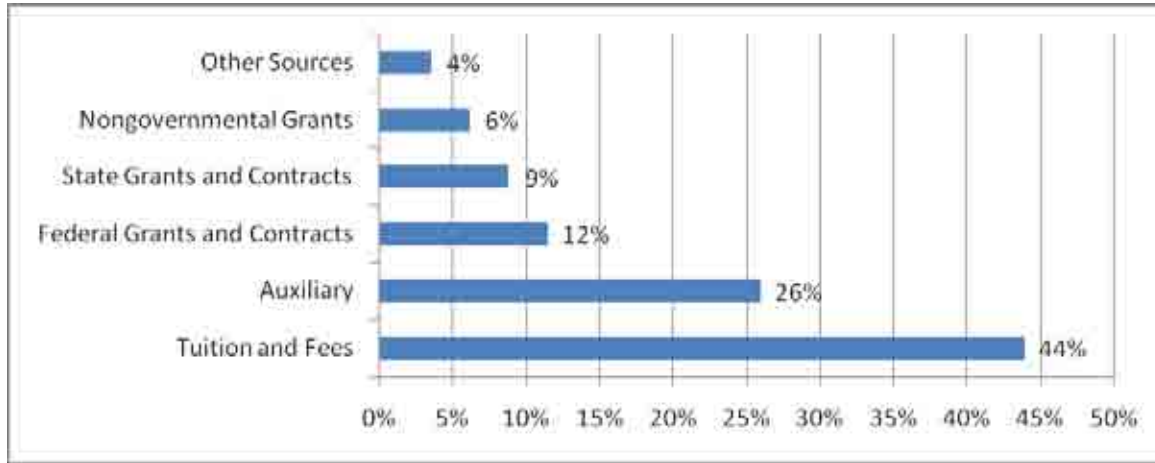
	2008	2007	Increase (Decrease)	Percent Change
Operating Revenues				
Tuition and fees, net	\$ 2.9	\$ 2.9	\$ --	
Grants and contracts	0.8	0.7	0.1	
Federal, State and local grants & contracts	0.6	0.7	(0.1)	
Non-governmental Grants	0.4	0.4	--	
Auxiliary activities, net	1.8	1.5	0.3	
Other	0.2	0.2	--	
Total Operating Revenues	6.7	6.4	0.3	4.7%
Total Operating Expenses	17.8	16.6	1.2	7.2%
Net Operating Loss	\$ (11.1)	\$ (10.2)	\$ (0.9)	8.8%
Nonoperating Revenues (Expenses)				
State Appropriations	3.1	2.6	0.5	
Property tax levy	6.4	5.8	0.6	
Pell Grants	2.2	1.8	0.4	
Investment Income	0.1	0.6	(0.5)	
Interest on Capital Related Debt	(0.1)	(0.2)	0.1	
Donations	0.3	0.3	-	
Total Nonoperating Revenues	12.0	10.9	1.1	10.1%
Income (Loss) before Other Revenues and Expenses	0.9	0.7	0.2	28.6%
Other Revenue				
Additions to permanent endowments	0.2	0.3	(0.1)	
Total Other Revenue	0.2	0.3	(0.1)	(33.3%)
Increase in Net Assets	1.1	1.0	0.1	10.0%
Net Assets-Beginning of Year	23.9	22.9		
Net Assets-End of Year	\$ 25.0	\$ 23.9		

### Operating Revenues

Operating revenues include charges for all exchange transactions such as tuition and fees, the sale of books and supplies, rental revenue of the residence halls and revenue from the conference center. In addition, certain federal, state, and private grants are considered operating, if they are not for capital purposes, and are considered a contract for services.



The following is a graphic illustration of operating revenues by source:



Operating revenue changes were the result of the following factors:

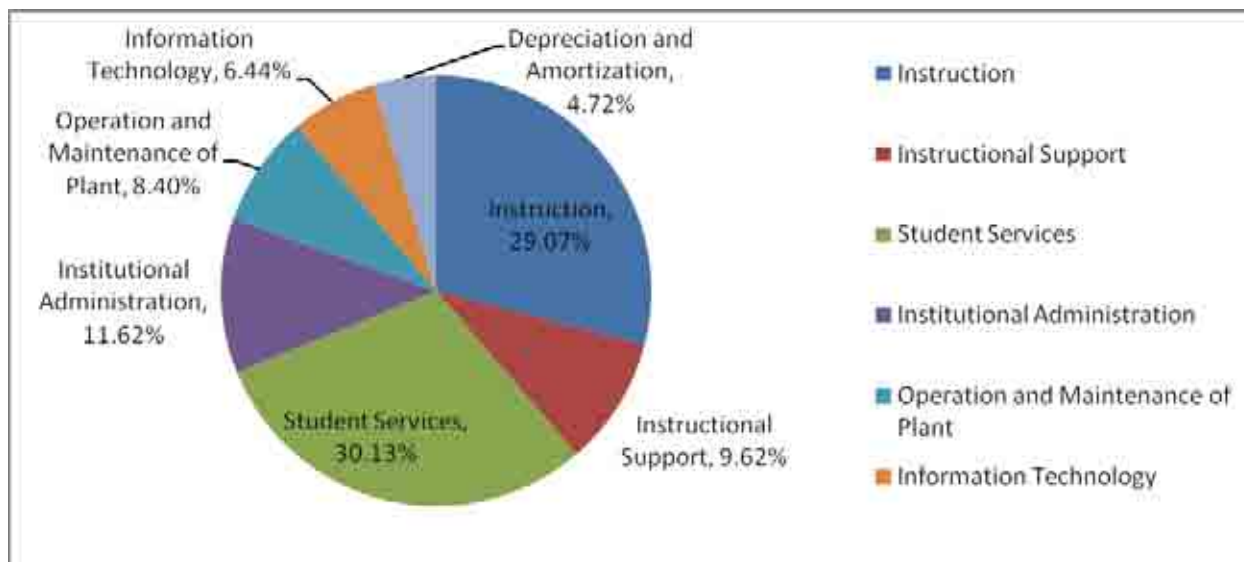
- Federal Grants and Contracts increased by \$55,660, due mainly to increases in Federal work study and Perkins grants.
- State and Local Government Contracts decreased by \$67,037, mainly due to a drop in the Michigan Merit awards given to students attending North Central Michigan College.
- Auxiliary enterprise revenues increased by \$190,662 due to an increase in College Store and Conference/Cafeteria revenues.
- Tuition and Fees totaled \$2,943,681, a \$21,525 increase in revenues from last year.

The College receives substantial nonoperating support from state appropriations and property tax revenue, thus operating expenses normally exceed operating revenues resulting in an operating loss. Non-operating revenues and expenses are an integral component in determining the increase or decrease in net assets.

### **Operating Expenses:**

Operating expenses are all the costs necessary to provide services and conduct the programs of the College.

The following is a graphic illustration of operating expenses by function for June 30, 2008:

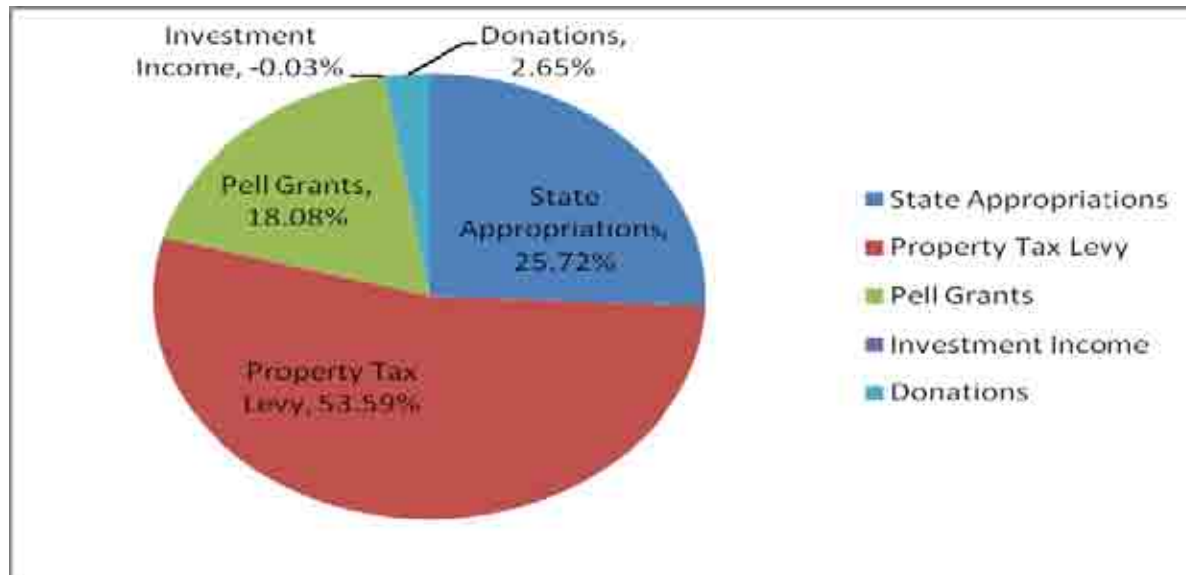


Operating expenses increased by \$1,170,832 in 2008. Salaries and fringes totaled approximately \$10.8 million this fiscal year, representing approximately 62.0% of total operating expenses.

### **Nonoperating Revenues**

Nonoperating revenues represent all revenue sources that are primarily non-exchange in nature. They consist primarily of state appropriations, property tax revenue and investment income (including realized and unrealized gains and losses).

The following is a graphic illustration of nonoperating revenues by source:



**Nonoperating** revenue changes were the result of the following factors:

- State appropriations increased by \$538,400. The major increase from the year before involved the State holding the previous year's last payment until the FY 2007-2008 period.
- Property taxes increased by \$637,257 or 10.98%. The taxable value of property in the county increased by 6.0%. The other increase in property taxes involved the special millage that contributed to the overall increase.

- Pell Grants of \$2,174,283 for FY 2007-2008, which was an increase of \$376,589, due mainly to the increase in enrollment. In previous years, Pell Grant dollars were included in Operating Revenue under the Federal Grants and Contracts line. Please see FY 2007-2008 Footnotes for further clarification.
- Investment income was significantly reduced due to poor overall U.S. economic conditions. The investments from this year were \$512,832 less than last year.
- Donations increased by 33% from the year before, accounting for \$318,216 of the Non-Operations revenue total.
- Special events decreased by \$44,167 from last year's totals. This was mainly due to poor economic conditions in the entire State of Michigan.

### **Other Revenue**

Other revenue consists of items that are typically nonrecurring, extraordinary, or unusual to the College. Other revenues resulted from the following:

- Donations of \$186,833 to the permanent endowments for the promotion of the College's educational and cultural activities.

### **Statement of Cash Flows**

The primary purpose of this statement is to provide relevant information about the cash receipts and cash payments of an entity during a period. The Statement of Cash Flows also may help users assess:

- An entity's ability to generate future net cash flows
- Its ability to meet its obligations as they come due
- Its needs for external financing

#### **Cash Flows for the Year Ended June 30 (in millions)**

	2008	2007	Increase (Decrease)
<b>Cash Provided by (used in):</b>			
Operating activities	(11.0)	(9.2)	\$ (1.8)
Noncapital financing activities	11.7	11.1	0.6
Capital and related financing activities	(0.7)	(0.9)	0.2
Investing activities	1.2	(0.7)	1.9
<b>Net Increase in Cash</b>	1.2	0.3	0.9
<b>Cash-Beginning of Year</b>	5.2	4.9	0.3
<b>Cash-End of Year</b>	<u>\$ 6.4</u>	<u>\$ 5.2</u>	<u>\$ 1.2</u>

Net cash used for operating activities totaled \$11.0 million for the fiscal year ending June 30, 2008. This was financed by \$11.7 million of net cash flows from non-capital financing activities such as property taxes and state appropriations. Net cash used for capital and related financing activities totaled \$ 0.7 million. This includes \$1.0 million in capital additions and \$.5 million of debt principal and interest payments as well as \$.7 million in capital property tax revenue. Net cash used for investing activities totaled \$1.2 million. This includes interest

received of \$.3 million, the sale and maturities of investments totaling \$1.2 million, and the purchase of investments of \$.3 million. The net result of all cash flows is an increase in cash of \$1.2 million from the fiscal year ending June 30, 2007.

### **Capital Assets**

At June 30, 2008, the College had approximately \$16.4 million invested in capital assets, net of accumulated depreciation of \$11.0 million. Depreciation charges totaled approximately \$841,000 for the current fiscal year.

Capital assets consist of the following:

	<u>2008</u>	<u>2007</u>
Land	\$13,306	\$13,306
Construction in progress	517,865	337,404
Buildings and improvements	20,454,729	20,329,437
Infrastructure	2,514,183	2,328,016
Furniture, fixtures & equipment	2,921,380	2,586,818
Library materials	974,127	894,315
Software	<u>47,800</u>	<u>-</u>
Total capital assets	27,443,390	26,489,296
Less accumulated depreciation	<u>11,019,649</u>	<u>10,199,971</u>
Total capital assets, net	\$16,423,741	\$16,289,325

Major capital additions this year, including approximate costs, consist of the following:

Campus fire alarm, security and access controls systems	\$281,000
Student Community Resource Center entrance drive	93,000
Outdoor kiln shelter	81,000
Student services parking lot	54,000
Financial aid software	48,000
Nursing lab renovations	38,000
Campus operating software (construction in progress)	518,000

More detailed information about the College's capital assets is presented in the footnotes to the financial statement.

### **Debt**

The College had \$3.1 million in debt outstanding at June 30, 2008. Debt repayments of \$270,000 were made on debt existing at the beginning of the year. More detailed information about the College's long-term liabilities is presented in the footnotes to the financial statement.

### **Commitments**

As of June 30, 2008, the College had entered into contracts for the following:

Steel roof on administrative classroom building	\$389,940
Telephone, wireless internet and emergency notification system	230,000
Network upgrades and fiber installation	50,000

A deposit of \$110,093 had been made as of June 30, 2008 on the telephone, wireless internet and emergency notification system.

### **Economic Factors That Will Affect The Future**

The economic position of the College is closely tied to that of the State of Michigan. Because of limited economic growth and increased demand for state resources from federal mandates, the state has budget cuts that might need to be enacted during the Fiscal Year 2008-2009 budget year, which may impact the funding to the College in the 2008-2009 fiscal year.

Rising costs of gas and oil will impact the College's budget in the 2008-09 fiscal year.

The Board of Trustees approved an average increase of 2.63% in tuition rates effective with the Fall 2008 term.

### **Contacting the College's Financial Management**

The financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the College's finances and to demonstrate the College's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the business office, North Central Michigan College, 1515 Howard Street, Petoskey, Michigan 49770.

NORTH CENTRAL MICHIGAN COLLEGE  
BALANCE SHEETS  
June 30, 2008 and 2007

	ASSETS	
	2008	2007
CURRENT ASSETS:		
Cash and cash equivalents	\$ 5,723,190	\$ 4,516,822
Receivables, net	406,835	355,893
State appropriation receivable	-	181,081
Federal and state grants receivable	789,594	94,207
Inventories	100,222	120,113
Prepaid expenses	122,654	148,707
Equipment deposits	110,093	-
Total current assets	7,252,588	5,416,823
NONCURRENT ASSETS:		
Restricted cash	715,992	734,075
Investments	5,013,251	6,029,865
Capital assets not being depreciated or amortized	531,171	350,710
Capital assets being depreciated or amortized, net	15,892,570	15,938,615
Total noncurrent assets	22,152,984	23,053,265
TOTAL ASSETS	\$ 29,405,572	\$ 28,470,088
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 345,041	\$ 336,917
Accrued payroll and other compensation	474,059	364,109
Unearned tuition and fees	169,795	138,385
Unearned revenue	33,514	68,811
Due to depositors	36,051	30,737
Interest payable	22,455	24,390
Current portion of bonds payable	285,000	270,000
Total current liabilities	1,365,915	1,233,349
LONG-TERM LIABILITIES:		
Accrued compensated absences	202,381	207,886
Bonds payable, net of current portion	2,810,000	3,095,000
Total long-term liabilities	3,012,381	3,302,886
Total liabilities	4,378,296	4,536,235
NET ASSETS:		
Invested in capital assets, net of related debt	13,438,834	12,924,325
Restricted for:		
Nonexpendable endowments	1,428,038	1,308,070
Expendable scholarships and grants	424,698	735,541
Construction and debt service	117,464	150,189
Capital projects	318,485	287,838
Unrestricted	9,299,757	8,527,890
Total net assets	25,027,276	23,933,853
TOTAL LIABILITIES AND NET ASSETS	\$ 29,405,572	\$ 28,470,088

The accompanying notes are an integral part of these financial statements.

NORTH CENTRAL MICHIGAN COLLEGE  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
for the years ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
OPERATING REVENUES:		
Tuition and fees (net of scholarship allowance of \$1,824,308 and \$1,520,099 in 2008 and 2007, respectively)	\$ 2,943,681	\$ 2,922,156
Federal grants and contracts	770,569	714,909
State and local grants and contracts	592,561	659,598
Nongovernmental grants	383,974	380,799
Auxiliary activities	1,739,734	1,549,072
Other sources	<u>191,498</u>	<u>154,594</u>
Total operating revenues	6,622,017	6,381,128
OPERATING EXPENSES:		
Instruction	5,179,683	4,890,842
Instructional support	1,714,747	1,516,237
Student services	5,368,312	5,186,655
Institutional administration	1,993,887	1,745,118
Operation and maintenance of plant	1,495,976	1,493,079
Information technology	1,148,362	928,042
Depreciation and amortization	<u>841,278</u>	<u>811,440</u>
Total operating expenses	<u>17,742,245</u>	<u>16,571,413</u>
Operating loss	(11,120,228)	(10,190,285)
NONOPERATING REVENUES (EXPENSES):		
State appropriations	3,093,400	2,555,000
Property tax levy	6,444,723	5,807,466
Pell grants	2,174,283	1,797,694
Investment income (net of investment expense of \$23,535 and \$22,163 in 2008 and 2007, respectively)	337,933	346,811
Net realized and unrealized gain (loss) on investments	(252,113)	251,391
Net gain (loss) on disposal of fixed assets	8,900	(502)
Interest on capital asset - related debt	(144,406)	(155,479)
Donations	318,216	239,510
Special events	<u>45,882</u>	<u>90,049</u>
Net nonoperating revenues	<u>12,026,818</u>	<u>10,931,940</u>
Income before other revenue	906,590	741,655
OTHER REVENUE,		
Additions to permanent endowments	<u>186,833</u>	<u>308,436</u>
INCREASE IN NET ASSETS	1,093,423	1,050,091
NET ASSETS:		
NET ASSETS, BEGINNING OF YEAR	<u>23,933,853</u>	<u>22,883,762</u>
NET ASSETS, END OF YEAR	<u>\$ 25,027,276</u>	<u>\$ 23,933,853</u>

The accompanying notes are an integral part of these financial statements.

NORTH CENTRAL MICHIGAN COLLEGE  
STATEMENTS OF CASH FLOWS  
for the years ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Tuition and fees	\$ 2,889,881	\$ 2,792,415
Grants and contracts	1,022,219	1,986,847
Payments to suppliers	(9,389,359)	(8,565,324)
Payments to employees	(7,485,938)	(7,094,734)
Auxiliary enterprise charges	1,742,552	1,522,183
Other	191,498	154,594
	<u>(11,029,147)</u>	<u>(9,204,019)</u>
Net cash used for operating activities		
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Local property taxes	5,718,501	5,123,017
Pell grants	2,158,624	1,809,309
Additions to permanent endowments	186,833	308,436
Donations and special events	364,098	1,021,878
State appropriations	3,274,481	2,871,754
	<u>11,702,537</u>	<u>11,134,394</u>
Net cash provided by noncapital financing activities		
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of capital assets	(1,032,072)	(1,136,013)
Proceeds from sale of capital assets	8,900	12,500
Principal paid on capital debt	(270,000)	(255,000)
Capital property taxes	726,222	684,449
Interest paid on capital debt	(146,341)	(157,307)
	<u>(713,291)</u>	<u>(851,371)</u>
Net cash used for capital and related financing activities		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales and maturities of investments	1,227,948	435,327
Interest on investments	337,933	346,811
Purchase of investments	(337,695)	(1,547,890)
	<u>1,228,186</u>	<u>(765,752)</u>
Net cash provided by (used for) investing activities		
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,188,285	313,252
CASH AND CASH EQUIVALENTS - Beginning of Year	5,250,897	4,937,645
CASH AND CASH EQUIVALENTS - End of Year	<u>\$ 6,439,182</u>	<u>\$ 5,250,897</u>

The accompanying notes are an integral part of these financial statements.



NORTH CENTRAL MICHIGAN COLLEGE  
STATEMENTS OF CASH FLOWS (CONTINUED)  
for the years ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
BALANCE SHEET CLASSIFICATIONS OF CASH AND CASH EQUIVALENTS:		
Cash and cash equivalents	\$ 5,723,190	\$ 4,516,822
Restricted cash	<u>715,992</u>	<u>734,075</u>
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 6,439,182</u>	<u>\$ 5,250,897</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES:		
Operating loss	\$ (11,120,228)	\$ (10,190,285)
Adjustment to reconcile operating loss to net cash used for operating activities:		
Depreciation and amortization	841,278	811,440
Allowance for uncollectible accounts	25,651	42,895
(Increase) decrease in assets:		
Accounts receivable, net	(76,593)	(170,144)
Federal and state grants receivable	(695,387)	192,739
Inventories	19,891	7,597
Prepaid assets and other current assets	26,053	17,964
Equipment deposits	(110,093)	-
Increase (decrease) in liabilities:		
Accounts payable	(45,591)	15,295
Accrued payroll and other compensation	104,445	1,520
Due to depositors	5,314	14,644
Unearned tuition and fees	<u>(3,887)</u>	<u>52,316</u>
NET CASH USED FOR OPERATING ACTIVITIES	<u>\$ (11,029,147)</u>	<u>\$ (9,204,019)</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital assets purchased with accounts payable	<u>\$ 53,715</u>	<u>\$ 102,935</u>

The accompanying notes are an integral part of these financial statements.

NORTH CENTRAL MICHIGAN COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2008 and 2007

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NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Reporting Entity and Basis of Presentation

North Central Michigan College (the College) is a community college offering courses at its Petoskey, Michigan campus and other locations in northwest lower Michigan. The College is governed by a seven member Board of Trustees elected at large by Emmet County voters. The financial statements have been prepared in accordance with the generally accepted accounting principles as applicable to public colleges and universities outlined in Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis of Public Colleges and Universities* and the *Manual for Uniform Financial Reporting - Michigan Public Community Colleges*.

The College reports as a "business-type" activity, as defined by GASB Statement No. 35. Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods or services.

Reporting for business-type activities is based on all applicable GASB pronouncements, as well as certain applicable Financial Accounting Standards Board pronouncements, unless those pronouncements conflict with GASB pronouncements.

The accompanying financial statements have been prepared in accordance with criteria established by GASB for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational or financial relationships with the College. Based on application of the criteria, the North Central Michigan College Foundation (the Foundation) is included in the College's reporting entity. See Note J for further discussion of this component unit.

Significant accounting policies followed by the College are described below:

Accrual Basis

The financial statements have been prepared on the accrual basis of accounting, whereby revenue is recognized when earned and expenditures are recognized when the related liabilities are incurred and certain measurement and matching criteria are met.

Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits and all highly liquid investments with an initial maturity of three months or less.

Allowance for Uncollectible Accounts

An allowance for uncollectible accounts is estimated and recorded based on the College's historical bad debt experience and on management's judgment. The allowance for uncollectible accounts at June 30, 2008 and 2007 was \$68,546 and \$42,895, respectively.

Investments

Investments are recorded at fair value, based on quoted market prices.

NORTH CENTRAL MICHIGAN COLLEGE  
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NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Inventories

Inventories are valued at the lower of cost (first-in, first-out) or market. Inventories consist of bookstore textbooks, materials, and food service supplies.

Capital Assets

Capital assets are recorded at cost or, if acquired by gift, at the fair market value as of the date of acquisition. Depreciation is provided for capital assets on a straight-line basis over the estimated useful life of the assets. The College's capitalization policy is to capitalize individual amounts of \$5,000 or more.

Unemployment Insurance

The College reimburses the State of Michigan Unemployment Agency (the Agency) for the actual amount of unemployment benefits disbursed by the Agency on behalf of the College. Billings received for amounts paid by the Agency through June 30 are accrued.

Unearned Revenue

Revenue received prior to year-end that relates to the next fiscal period is recorded as unearned revenue. Unearned revenue at June 30, 2008 consists of \$169,795 for the 2008 summer semester, which began on June 2, 2008 and ended on July 25, 2008, \$15,965 related primarily to auxiliary activities, and \$17,549 related to scholarships. Unearned revenue at June 30, 2007 consists of \$138,385 for the 2007 summer semester, which began on June 4, 2007 and ended on July 27, 2007, and \$22,461 related primarily to auxiliary activities, and \$46,350 related to scholarships.

Accrued Compensated Absences

This represents the accumulated liability to be paid under the college's current sick and personal day policy.

Internal Activity Elimination

In the process of aggregating data for the Balance Sheets and Statements of Revenues, Expenses and Changes in Net Assets, some amounts reported as internal activity and balances have been eliminated on the Statements of Revenues, Expenses and Changes in Net Assets. Both revenue and expenses related to internal service activities have been eliminated.

Operating Revenues and Expenses

Revenue and expense transactions are normally classified as operating revenues and expenses when such transactions constitute the College's principal ongoing operations. However, most revenues that are considered to be non-exchange and exchange-like, such as tax revenues and State appropriations, are classified as nonoperating revenues.

NORTH CENTRAL MICHIGAN COLLEGE  
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NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Use of Estimates

The process of preparing basic financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Reclassifications

Certain amounts in prior-year financial statements have been reclassified for comparative purposes to conform with presentation in the current-year financial statements. A major reclassification was for Pell grants of \$1,797,694 to be reported as nonoperating revenue rather than as operating revenue. This reclassification is a result of a GASB Clarification issued in October, 2007 regarding this issue.

NOTE B - PROPERTY TAXES:

Property taxes levied by the College are collected by various municipalities and periodically remitted to the College. The taxes are levied as of December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due date is February 14, after which time the bills become delinquent and penalties and interest are assessed by the collection entity. Property tax revenues are recognized when levied.

For the years ended June 30, 2008 and 2007, the College levied the following amounts per \$1,000 of assessed valuation:

<u>Description</u>	<u>2008</u>	<u>2007</u>
Operating	1.1110 Mills	1.1132 Mills
Additional voted operating (expires 2016)	.9981 Mills	.8966 Mills
Special voted operating (expires 2016, for construction and debt service)	.2679 Mills	.2686 Mills

NOTE C - CASH AND INVESTMENTS:

Cash and Short-term Investments

Cash consists of deposits in bank accounts and cash on hand. The College maintains deposits in bank checking accounts, savings accounts and money market accounts in accordance with Michigan Public Act 331 as discussed below. The Foundation maintains a non-interest bearing bank checking account.

Investments

Michigan Public Act 331 authorizes the College to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan

NORTH CENTRAL MICHIGAN COLLEGE  
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NOTE C - CASH AND INVESTMENTS (Continued):

Investments (Continued)

Insurance Corporation, or National Credit Union Administration, respectively; and in commercial paper of corporations located in this state rated prime by at least one of the standard rating services. The College is also authorized to invest in U.S. Government or federal agency obligations, repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

The investment policy of the North Central Michigan College Foundation as established by the Foundation's Board of Directors authorizes investments in a diversified portfolio of equities, fixed income securities and short-term fixed income instruments (i.e. securities with maturities under three years). The overall investment objective is to maximize growth while generating sufficient income and maintaining adequate cash reserves to meet stated distribution requirements as established from time to time by the Foundation Board. Mutually agreed upon allocation parameters among these types of investments are established at least annually with the Foundation's investment advisor. Short sales; put and call option strategies; margin purchases; commodities (futures); securities of the Investment Manager's corporation or parent corporation; direct investments in tangible assets such as real estate, oil and gas, precious metals, in excess of 5 percent of the total portfolio; and derivatives as a yield enhancement not as a hedge are prohibited unless specific written permission is received from the Foundation Board.

Interest Rate Risk

As of June 30, 2008, the College and Foundation had the following investments and maturities (money market funds and external investment pools are classified as cash and cash equivalents on the Balance Sheet):

	Fair Market Value	Less Than One Year	1-3 Years	More Than 3 Years
Money market funds	\$1,818,580	\$1,818,580	\$ -	\$ -
External investment pools	<u>2,679,513</u>	<u>2,679,513</u>	<u>-</u>	<u>-</u>
Subtotal	<u>4,498,093</u>	<u>4,498,093</u>	<u>-</u>	<u>-</u>
U.S. agencies	1,474,903	388,467	92,198	994,238*
U.S. Treasuries	768,020	301,101	335,110	131,809
Corporate bonds	193,908	49,696	25,034	119,178
Municipal bonds	30,000	-	-	30,000**
Mutual bond funds	337,943	-	156,986	180,957
Mutual equity funds	<u>2,208,477</u>	<u>-</u>	<u>-</u>	<u>2,208,477</u>
Subtotal	<u>5,013,251</u>	<u>739,264</u>	<u>609,328</u>	<u>3,664,659</u>
Total investments	<u>\$9,511,344</u>	<u>\$5,237,357</u>	<u>\$ 609,328</u>	<u>\$3,664,659</u>

\* \$379,220 of these investments are callable in less than one year and \$256,408 are callable in 1-3 years.

\*\* All of the investments in municipal bonds are callable in less than one year.

NORTH CENTRAL MICHIGAN COLLEGE  
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NOTE C - CASH AND INVESTMENTS (Continued):

Interest Rate Risk (Continued)

As of June 30, 2007, the College and Foundation had the following investments and maturities (money market funds and external investment pools are classified as cash and cash equivalents on the Balance Sheet):

	<u>Fair Market Value</u>	<u>Less Than One Year</u>	<u>1-3 Years</u>	<u>More Than 3 Years</u>
Money market funds	\$1,465,696	\$1,465,696	\$ -	\$ -
External investment pools	<u>2,016,867</u>	<u>2,016,867</u>	<u>-</u>	<u>-</u>
Subtotal	<u>3,482,563</u>	<u>3,482,563</u>	<u>-</u>	<u>-</u>
U.S. agencies	1,682,199	346,926	599,688*	735,585**
U.S. Treasuries	1,208,098	497,006	469,768	241,324
Corporate bonds	98,246	49,705	48,541	-
Municipal bonds	185,000	-	-	185,000
Common stock	35,070	-	-	35,070
Mutual bond funds	368,463	-	153,346	215,117
Mutual equity funds	<u>2,452,789</u>	<u>-</u>	<u>-</u>	<u>2,452,789</u>
Subtotal	<u>6,029,865</u>	<u>893,637</u>	<u>1,271,343</u>	<u>3,864,885</u>
Total investments	<u>\$9,512,428</u>	<u>\$4,376,200</u>	<u>\$1,271,343</u>	<u>\$3,864,885</u>

\* \$145,532 of these investments are callable in less than one year.

\*\* \$423,083 of these investments are callable in 1-3 years.

The College does not have specific investment policies that limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Foundation investment policy states that fixed income securities maturities should not exceed ten years based on the average weighted value of the portfolio. As of June 30, 2008 and 2007, there are no Foundation investments in fixed income securities that exceed ten years.

The Foundation invests in common stock and mutual equity funds with a long-term objective to preserve principal and provide appreciation. Therefore the interest rate risk is not considered in its decisions.

The maturities of money market funds, external investment pools and certain mutual bond funds are based on the average weighted maturity method. Certain other mutual bond funds have no weighted average maturity statistics because they are heavily invested in preferred stocks. These mutual bond funds are therefore classified as having a maturity of more than three years.

Credit Risk

The College and Foundation are exposed to credit risk for investments in certain money market funds, external investment pools, debt securities and mutual bond funds. Credit quality ratings are established by nationally recognized statistical rating organizations (NRSROs). Where more than one rating exists, and those ratings are conflicting, the rating with the greatest degree of risk is disclosed. Average credit quality ratings were obtained for money market funds and mutual bond funds.

NORTH CENTRAL MICHIGAN COLLEGE  
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NOTE C - CASH AND INVESTMENTS (Continued):

Credit Risk (Continued)

As of June 30, 2008, the credit quality ratings for these types of investments and credit risk exposure as a percent of total investments are as follows:

	<u>Credit Quality Rating</u>	<u>Percent</u>
Money market funds	AAA	10
Money market funds	Not Rated	18
External investment pools	Aaa	41
U.S. agency bonds	AAA	23
Corporate bonds	AAA	<1
Corporate bonds	AA	1
Corporate bonds	A	2
Municipal bonds	A	<1
Mutual bond funds	AAA	2
Mutual bond funds	AA	2
Mutual bond funds	A	<1
Mutual bond funds	B	<1

As of June 30, 2007, the credit quality ratings for these types of investments and credit risk exposure as a percent of total investments are as follows:

	<u>Credit Quality Rating</u>	<u>Percent</u>
Money market funds	AAA	16
Money market funds	Not Rated	9
External investment pools	Aaa	35
U.S. agencies	AAA	29
Corporate bonds	A	2
Municipal bonds	AA	1
Municipal bonds	AAA	2
Mutual bond funds	A	1
Mutual bond funds	AA	2
Mutual bond funds	AAA	3
Mutual bond funds	B	<1

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the College's deposits may not be returned to it. The College does not have a deposit policy for custodial credit risk. At June 30, 2008, the bank balance was \$2,088,483 of which \$1,786,001 was uninsured and uncollateralized. At June 30, 2007 the bank balance was \$1,887,114 of which \$1,484,399 was uninsured and uncollateralized.

Custodial Credit Risk - Investments

The College and Foundation investment policies do not address custodial credit risk. However, all of the investments are in the name of the College or Foundation, as applicable, and the investments are held in trust accounts with each financial institution from which they were purchased.

NORTH CENTRAL MICHIGAN COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
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NOTE C - CASH AND INVESTMENTS (Continued):

Concentration of Credit Risk

Neither the College nor Foundation places a limit on the amount that may be invested in any one issuer. Five percent or more of the College's and Foundation's investments at June 30, 2008 and 2007 were invested as follows:

<u>Issuer</u>	<u>2008</u>	<u>2007</u>
Federal Home Loan Mortgage Corporation	Less than 5%	6%
Federal Home Loan Bank	9%	9%

NOTE D - RECEIVABLES:

Receivables consist of the following at June 30, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Auxiliary activities - related	\$103,328	\$ 103,593
Students	\$354,147	\$267,507
Less allowance for uncollectible accounts	<u>(68,546)</u>	<u>(42,895)</u>
Other	<u>17,906</u>	<u>27,688</u>
	<u>\$406,835</u>	<u>\$ 355,893</u>

NOTE E - CAPITAL ASSETS:

The following is a summary of the changes in the various capital asset class categories for the year ended June 30, 2008:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Ending Balance</u>
Capital Assets Not Being Depreciated or Amortized:				
Land	\$ 13,306	\$ -	\$ -	\$ 13,306
Construction in progress	<u>337,404</u>	<u>517,865</u>	<u>(337,404)</u>	<u>517,865</u>
Total Capital Assets Not Being Depreciated or Amortized	<u>350,710</u>	<u>517,865</u>	<u>(337,404)</u>	<u>531,171</u>
Capital Assets Being Depreciated or Amortized:				
Buildings and improvements	20,329,437	125,292	-	20,454,729
Infrastructure	2,328,016	186,167	-	2,514,183
Furniture, fixtures and equipment	2,586,818	356,162	(21,600)	2,921,380
Library materials	894,315	79,812	-	974,127
Software	<u>-</u>	<u>47,800</u>	<u>-</u>	<u>47,800</u>
Total Capital Assets Being Depreciated or Amortized	<u>26,138,586</u>	<u>795,233</u>	<u>(21,600)</u>	<u>26,912,219</u>
Less Accumulated Depreciation and Amortization:				
Buildings and improvements	7,155,701	431,566	-	7,587,267
Infrastructure	1,264,409	119,649	-	1,384,058
Furniture, fixtures and equipment	1,266,128	215,364	(21,600)	1,459,892
Library materials	513,733	73,106	-	586,839
Software	<u>-</u>	<u>1,593</u>	<u>-</u>	<u>1,593</u>
Total Accumulated Depreciation and Amortization	<u>10,199,971</u>	<u>841,278</u>	<u>(21,600)</u>	<u>11,019,649</u>
Total Capital Assets Being Depreciated or Amortized, Net	<u>15,938,615</u>	<u>(46,045)</u>	<u>-</u>	<u>15,892,570</u>
Total Capital Assets, Net	<u>\$16,289,325</u>	<u>\$ 471,820</u>	<u>\$(337,404)</u>	<u>\$16,423,741</u>



NORTH CENTRAL MICHIGAN COLLEGE  
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NOTE E - CAPITAL ASSETS (Continued):

The following is a summary of the changes in the various capital asset class categories for the year ended June 30, 2007:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Ending Balance</u>
Capital Assets Not Being Depreciated:				
Land	\$ 13,306	\$ -	\$ -	\$ 13,306
Construction in progress	<u>41,850</u>	<u>329,554</u>	<u>(34,000)</u>	<u>337,404</u>
Total Capital Assets Not Being Depreciated	<u>55,156</u>	<u>329,554</u>	<u>(34,000)</u>	<u>350,710</u>
Capital Assets Being Depreciated:				
Buildings and improvements	20,287,163	42,274	-	20,329,437
Infrastructure	1,681,895	604,171	41,950	2,328,016
Furniture, fixtures and equipment	2,445,489	172,533	(31,204)	2,586,818
Library materials	<u>811,849</u>	<u>82,466</u>	<u>-</u>	<u>894,315</u>
Total Capital Assets Being Depreciated	<u>25,226,396</u>	<u>901,444</u>	<u>10,746</u>	<u>26,138,586</u>
Less Accumulated Depreciation:				
Buildings and improvements	6,706,186	449,515	-	7,155,701
Infrastructure	1,179,437	84,972	-	1,264,409
Furniture, fixtures and equipment	1,077,622	206,708	(18,202)	1,266,128
Library materials	<u>443,488</u>	<u>70,245</u>	<u>-</u>	<u>513,733</u>
Total Accumulated Depreciation	<u>9,406,733</u>	<u>811,440</u>	<u>(18,202)</u>	<u>10,199,971</u>
Total Capital Assets Being Depreciated, Net	<u>15,819,663</u>	<u>90,004</u>	<u>28,948</u>	<u>15,938,615</u>
Total Capital Assets, Net	<u>\$15,874,819</u>	<u>\$ 419,558</u>	<u>\$ (5,052)</u>	<u>\$16,289,325</u>

The following estimated useful lives are used to compute depreciation and amortization:

Buildings and improvements	40 years
Infrastructure	15 years
Furniture, fixtures and equipment	3-20 years
Library materials	10 years
Software	10 years

Depreciation and amortization expense for the years ended June 30, 2008 and 2007 totaled \$841,278 and \$811,440, respectively.

NOTE F - LONG-TERM LIABILITIES:

Long-term liability activity for the year ended June 30, 2008 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Bonds payable	\$3,365,000	\$ -	\$270,000	\$3,095,000	\$285,000
Accrued compensated absences	<u>207,886</u>	<u>-</u>	<u>5,505</u>	<u>202,381</u>	<u>-</u>
Total long-term liabilities	<u>\$3,572,886</u>	<u>\$ -</u>	<u>\$275,505</u>	<u>\$3,297,381</u>	<u>\$285,000</u>

NORTH CENTRAL MICHIGAN COLLEGE  
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NOTE F - LONG-TERM LIABILITIES (Continued):

Long-term liability activity for the year ended June 30, 2007 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Bonds payable	\$3,620,000	\$ -	\$255,000	\$3,365,000	\$270,000
Accrued compensated absences	211,350	-	3,464	207,886	-
Total long-term liabilities	<u>\$3,831,350</u>	<u>\$ -</u>	<u>\$258,464</u>	<u>\$3,572,886</u>	<u>\$270,000</u>

The College issued \$4,975,000 of limited general obligation bonds in May, 1999. The proceeds of the bonds were used for the construction of a multi-purpose building, which was completed in 2002.

Interest is payable semi-annually in May and November at rates ranging from 4.300 percent to 4.375 percent. The principal and interest are payable from designated property tax levies. Bonds maturing in the years 2010 through 2017 are callable at par and accrued interest.

Total principal and interest maturities on the bonds as of June 30, 2008 are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 285,000	\$ 134,731	\$ 419,731
2010	300,000	122,476	422,476
2011	315,000	109,576	424,576
2012	330,000	96,031	426,031
2013	345,000	81,594	426,594
2014-2017	<u>1,520,000</u>	<u>168,875</u>	<u>1,688,875</u>
Total	<u>\$3,095,000</u>	<u>\$ 713,283</u>	<u>\$3,808,283</u>

Interest expense was \$144,406 and \$155,479 for the years ended June 30, 2008 and 2007, respectively.

NOTE G - NET ASSETS:

Restricted Net Assets

Restricted net assets represent amounts over which third parties have imposed restriction that cannot be changed by the Board, including amounts that the Board has agreed to set aside under contractual agreements with third parties and funds restricted for scholarships and other purposes.

NORTH CENTRAL MICHIGAN COLLEGE  
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NOTE G - NET ASSETS (Continued):

Unrestricted Net Assets

The College has designated the use of unrestricted net assets as follows for the years ended June 30, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Future capital outlay and major maintenance	\$2,042,497	\$1,309,627
Auxiliary activities	261,809	243,937
Equipment purchases, sabbaticals and other programs	2,767,738	2,748,569
Undesignated, College	1,453,844	1,301,826
Undesignated, Foundation	<u>2,773,869</u>	<u>2,923,931</u>
Total unrestricted net assets	<u>\$9,299,757</u>	<u>\$8,527,890</u>

NOTE H - RETIREMENT PLANS:

Defined Benefit Pension Plan

**Plan Description** - The College participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple employer defined benefit public employee retirement system governed by the State of Michigan that covers most employees of the College. The MPERS provides retirement, survivor and disability benefits to plan members and their beneficiaries. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for the MPERS. That report may be obtained by writing to the Michigan Public School Employees' Retirement System at 7150 Harris Drive, P.O. Box 30171, Lansing, Michigan 48909-7671.

**Funding Policy** - Employer contributions to the MPERS result from the effects of implementing the School Finance Reform Act. Under these procedures, the College is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The pension benefit rate totaled 16.72 percent of the covered compensation to the plan from October 1, 2007 through June 30, 2008. The pension benefit rate totaled 17.74 percent of the covered compensation to the plan from October 1, 2006 through September 30, 2007. The pension benefit rate totaled 16.34 percent of the covered compensation to the plan from October 1, 2005 through September 30, 2006. Basic plan members make no contributions, but Member Investment Plan participants contribute at the rate of 3.9 percent of gross wages. The College's contributions to the MPERS' plan for the years ended June 30, 2008, 2007 and 2006 totaled approximately \$928,000, \$908,000 and \$786,400, respectively.

**Post Retirement Benefits** - Under the MPERS' Act, all retirees participating in the MPERS' Pension Plan have the option of continuing health, dental and vision coverage. These benefits are not included in the pension benefit obligation referred to above.

Defined Contribution Plan

Effective January 1, 2000, existing professional MPERS members and new professional employees of the College may elect to participate in an optional retirement program (ORP) in lieu of participating in the MPERS plan. The ORP is a defined contribution plan affiliated with

NORTH CENTRAL MICHIGAN COLLEGE  
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NOTE H - RETIREMENT PLANS (Continued):

Defined Contribution Plan (Continued)

the Teachers Insurance and Annuity Association and the College Retirement Equities Fund (TIAA-CREF). Under ORP, the College contributes 11.0 percent, and the participant contributes 4.0 percent of the participant's compensation. Total contributions by the College were approximately \$173,800 and \$157,600 for the years ended June 30, 2008 and 2007, respectively. Total contributions by employees were approximately \$63,000 and \$57,000 for the years ended June 30, 2008 and 2007, respectively.

NOTE I - RISK MANAGEMENT:

The College is exposed to various risks of loss related to property loss, errors and omissions, workers' compensation, as well as medical benefits provided to employees. The College participates in two insurance pools with other Michigan community colleges and schools for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The College pays annual premiums to each pool for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. Each of the pools maintain reinsurance for claims in excess of \$45,000 in any one year. The College has not been informed of any special assessments being required.

The College also purchases commercial insurance for other risks of loss, including employee health and accident insurance.

NOTE J - NORTH CENTRAL MICHIGAN COLLEGE FOUNDATION:

The North Central Michigan College Foundation is a non-profit 501(c)3 corporation formed for the purpose of receiving funds for the sole benefit of the College. At June 30, 2008 and 2007, the stated value of the net assets of the Foundation totaled \$4,693,982 and \$4,805,154, respectively. These assets and all activity of the Foundation are included in the financial statements of the College as a blended component unit. Separately issued financial statements for the Foundation are available by contacting the Foundation office.

The College provides partial financial support to the Foundation in the form of payment of various expenses, including salaries, benefits and various administrative expenses. The total of such expenses was approximately \$101,000 and \$92,300 for the years ended June 30, 2008 and 2007, respectively.

The College also has an endowed scholarship account at the Foundation. The Foundation invests and manages the account and makes an annual transfer to the College equal to the greater of five percent of the account's value at the beginning of the fiscal year, or eighty percent of the earnings on the account. The remaining amount, if any, is added to the principal balance of the account. The total amount transferred from the Foundation for the years ended June 30, 2008 and 2007 was approximately \$66,900 and \$52,600, respectively.

NORTH CENTRAL MICHIGAN COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2008 and 2007

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NOTE K - COMMITMENTS:

As of June 30, 2008, the College Board of Trustees had approved the following for the indicated amounts:

Steel roof for the Administrative Classroom Building	\$389,940
Telephone, wireless internet and emergency notification system	\$230,000
Network upgrades and fiber installation	\$ 50,000

A deposit of \$110,093 had been made as of June 30, 2008 on the telephone, wireless internet and emergency notification system.

NOTE L - PRIOR PERIOD ADJUSTMENT:

The College determined that an allowance for uncollectible accounts should have been recorded at June 30, 2007. Accordingly, the following financial statement line items as of and for the year ended June 30, 2007 were affected by this adjustment.

	<u>As Previously Stated</u>	<u>As Restated</u>	<u>Effect of Adjustment</u>
Balance sheet at June 30, 2007:			
Receivables (net)	\$ 398,788	\$ 355,893	\$ (42,895)
Net assets, unrestricted	\$8,570,785	\$8,527,890	\$ (42,895)
Statement of Revenue, Expenses and Changes in Net Assets for the year ended June 30, 2007:			
Institutional administration	\$1,702,223	\$1,745,118	\$ 42,895
Increase in net assets	\$1,092,986	\$1,050,091	\$ (42,895)

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October 7, 2008

INDEPENDENT AUDITORS' REPORT ON  
SUPPLEMENTAL INFORMATION

To the Board of Trustees of  
North Central Michigan College:

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information presented hereinafter is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the 2008 and 2007 basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Smolinski & Christman, P.C.*

NORTH CENTRAL MICHIGAN COLLEGE  
COMBINING BALANCE SHEET  
June 30, 2008

	General Fund	Designated Fund	Auxiliary Activities Fund	Restricted Fund	Plant Fund	Agency Fund	Memorandum Only - College Total	Foundation	Combined Total
ASSETS:									
CURRENT ASSETS:									
Cash and cash equivalents	\$ 2,204,166	\$ 631,587	\$ 309,364	\$ -	\$ 1,314,319	\$ 74,138	\$ 4,533,574	\$ 1,189,616	\$ 5,723,190
Receivables, net	303,507	-	103,328	-	-	-	406,835	-	406,835
State appropriation receivable	-	-	-	-	-	-	-	-	-
Federal and state grants receivable	516,000	-	-	273,594	-	-	789,594	-	789,594
Inventories	-	-	100,222	-	-	-	100,222	-	100,222
Prepaid expenses	119,838	-	2,816	-	-	-	122,654	-	122,654
Equipment deposits	-	-	-	-	110,093	-	110,093	-	110,093
Due from (to) other funds	(742,512)	989,866	(219,023)	(320,353)	490,328	(38,087)	160,219	(160,219)	-
Total current assets	2,400,999	1,621,453	296,707	(46,759)	1,914,740	36,051	6,223,191	1,029,397	7,252,588
RESTRICTED CASH	-	-	-	338,223	377,769	-	715,992	-	715,992
LONG-TERM INVESTMENTS	-	1,348,666	-	-	-	-	1,348,666	3,664,585	5,013,251
CAPITAL ASSETS:									
Capital assets not being depreciated or amortized	-	-	-	-	531,171	-	531,171	-	531,171
Capital assets being depre- ciated or amortized, net	-	-	-	-	15,892,570	-	15,892,570	-	15,892,570
Total capital assets	-	-	-	-	16,423,741	-	16,423,741	-	16,423,741
TOTAL ASSETS	<u>\$ 2,400,999</u>	<u>\$ 2,970,119</u>	<u>\$ 296,707</u>	<u>\$ 291,464</u>	<u>\$ 18,716,250</u>	<u>\$ 36,051</u>	<u>\$ 24,711,590</u>	<u>\$ 4,693,982</u>	<u>\$ 29,405,572</u>

NORTH CENTRAL MICHIGAN COLLEGE  
COMBINING BALANCE SHEET (CONTINUED)  
June 30, 2008

	General Fund	Designated Fund	Auxiliary Activities Fund	Restricted Fund	Plant Fund	Agency Fund	Memorandum Only - College Total	Foundation	Combined Total
LIABILITIES AND NET ASSETS:									
CURRENT LIABILITIES:									
Accounts payable	\$ 335,462	\$ -	\$ 9,579	\$ -	\$ -	\$ -	\$ 345,041	\$ -	\$ 345,041
Accrued payroll and other compensation	441,898	-	9,354	22,807	-	-	474,059	-	474,059
Unearned tuition and fees	169,795	-	-	-	-	-	169,795	-	169,795
Unearned revenue	-	-	15,965	17,549	-	-	33,514	-	33,514
Due to depositors	-	-	-	-	-	36,051	36,051	-	36,051
Interest payable	-	-	-	-	22,455	-	22,455	-	22,455
Current portion of bonds payable	-	-	-	-	285,000	-	285,000	-	285,000
Total current liabilities	947,155	-	34,898	40,356	307,455	36,051	1,365,915	-	1,365,915
LONG-TERM LIABILITIES:									
Accrued compensated absences	-	202,381	-	-	-	-	202,381	-	202,381
Bonds payable	-	-	-	-	2,810,000	-	2,810,000	-	2,810,000
Total long-term liabilities	-	202,381	-	-	2,810,000	-	3,012,381	-	3,012,381
Total liabilities	947,155	202,381	34,898	40,356	3,117,455	36,051	4,378,296	-	4,378,296
NET ASSETS:									
Invested in capital assets, net of related debt	-	-	-	-	13,438,834	-	13,438,834	-	13,438,834
Restricted for:									
Nonexpendable endowments	-	-	-	-	-	-	-	1,428,038	1,428,038
Expendable scholarships and grants	-	-	-	251,108	-	-	251,108	173,590	424,698
Construction and debt service	-	-	-	-	117,464	-	117,464	-	117,464
Capital projects	-	-	-	-	-	-	-	318,485	318,485
Unrestricted	1,453,844	2,767,738	261,809	-	2,042,497	-	6,525,888	2,773,869	9,299,757
Total net assets	1,453,844	2,767,738	261,809	251,108	15,598,795	-	20,333,294	4,693,982	25,027,276
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,400,999</u>	<u>\$ 2,970,119</u>	<u>\$ 296,707</u>	<u>\$ 291,464</u>	<u>\$ 18,716,250</u>	<u>\$ 36,051</u>	<u>\$ 24,711,590</u>	<u>\$ 4,693,982</u>	<u>\$ 29,405,572</u>



NORTH CENTRAL MICHIGAN COLLEGE  
COMBINING STATEMENT OF REVENUES, EXPENSES, TRANSFERS AND CHANGES IN NET ASSETS  
for the year ended June 30, 2008

	General Fund	Designated Fund	Auxiliary Activities Fund	Restricted Fund	Plant Fund	Memorandum Only - College Total	Foundation	Elimination	Combined Total
OPERATING REVENUES:									
Tuition and fees (net of scholarship allowance of \$1,824,308)	\$ 4,584,476	\$ 183,513	\$ -	\$ -	\$ -	\$ 4,767,989	\$ -	\$ (1,824,308)	\$ 2,943,681
Federal grants and contracts	-	-	-	770,569	-	770,569	-	-	770,569
State and local grants and contracts	-	-	-	592,561	-	592,561	-	-	592,561
Nongovernmental grants	-	-	-	413,054	-	413,054	-	(29,080)	383,974
Auxiliary activities	-	-	1,794,479	-	-	1,794,479	-	(54,745)	1,739,734
Other sources	128,807	100,623	-	5,201	3,888	238,519	-	(47,021)	191,498
Total operating revenues	4,713,283	284,136	1,794,479	1,781,385	3,888	8,577,171	-	(1,955,154)	6,622,017
OPERATING EXPENSES:									
Instruction	5,089,900	18,830	-	108,222	-	5,216,952	-	(37,269)	5,179,683
Instructional support	1,275,953	1,742	-	441,222	-	1,718,917	-	(4,170)	1,714,747
Student services	1,988,134	44,434	1,759,342	3,393,090	-	7,185,000	-	(1,816,688)	5,368,312
Institutional administration	1,564,467	62,152	-	-	-	1,626,619	463,110	(95,842)	1,993,887
Operation and maintenance of plant	1,418,922	31,948	-	2,960	42,146	1,495,976	-	-	1,495,976
Information technology	942,090	204,761	-	2,696	-	1,149,547	-	(1,185)	1,148,362
Depreciation and amortization	-	-	-	-	841,278	841,278	-	-	841,278
Total operating expenses	12,279,466	363,867	1,759,342	3,948,190	883,424	19,234,289	463,110	(1,955,154)	17,742,245
Operating income (loss)	(7,566,183)	(79,731)	35,137	(2,166,805)	(879,536)	(10,657,118)	(463,110)	-	(11,120,228)

NORTH CENTRAL MICHIGAN COLLEGE  
COMBINING STATEMENT OF REVENUES, EXPENSES, TRANSFERS AND CHANGES IN NET ASSETS (CONTINUED)  
for the year ended June 30, 2008

	General	Designated	Auxiliary	Restricted	Plant	Memorandum Only - College	Foundation	Elimination	Combined
	Fund	Fund	Activities Fund	Fund	Fund	Total			Total
NONOPERATING REVENUES (EXPENSES):									
State appropriations	3,093,400	-	-	-	-	3,093,400	-	-	3,093,400
Property tax levy	5,718,501	-	-	-	726,222	6,444,723	-	-	6,444,723
Pell grants	-	-	-	2,174,283	-	2,174,283	-	-	2,174,283
Investment income - net of investment expense	65,597	76,933	3,797	-	34,253	180,580	157,353	-	337,933
Net realized and unrealized gain (loss) on investments	-	37,368	-	-	-	37,368	(289,481)	-	(252,113)
Net gain on disposal of fixed assets	-	-	-	-	8,900	8,900	-	-	8,900
Interest on capital asset - related debt	-	-	-	-	(144,406)	(144,406)	-	-	(144,406)
Donations	-	-	-	-	-	-	318,216	-	318,216
Special events	-	-	-	-	-	-	45,882	-	45,882
Net nonoperating revenues	8,877,498	114,301	3,797	2,174,283	624,969	11,794,848	231,970	-	12,026,818
Income (loss) before other revenue	1,311,315	34,570	38,934	7,478	(254,567)	1,137,730	(231,140)	-	906,590
OTHER REVENUE,									
Additions to permanent endowments	-	-	-	-	-	-	186,833	-	186,833
Increase (decrease) in net assets	1,311,315	34,570	38,934	7,478	(254,567)	1,137,730	(44,307)	-	1,093,423
TRANSFERS IN (OUT)	(1,159,297)	(15,401)	(21,062)	(206,596)	1,469,221	66,865	(66,865)	-	-
NET INCREASE (DECREASE) IN NET ASSETS	152,018	19,169	17,872	(199,118)	1,214,654	1,204,595	(111,172)	-	1,093,423
NET ASSETS, BEGINNING OF YEAR	1,301,826	2,748,569	243,937	450,226	14,384,141	19,128,699	4,805,154	-	23,933,853
NET ASSETS, END OF YEAR	\$ 1,453,844	\$ 2,767,738	\$ 261,809	\$ 251,108	\$ 15,598,795	\$ 20,333,294	\$ 4,693,982	\$ -	\$ 25,027,276

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October 7, 2008

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Trustees of  
North Central Michigan College:

We have audited the financial statements of North Central Michigan College as of and for the year ended June 30, 2008, and have issued our report thereon dated October 7, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered North Central Michigan College's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the North Central Michigan College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the North Central Michigan College's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the North Central Michigan College's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of North

Internal Control Over Financial Reporting (Continued)

Central Michigan College's financial statements that is more than inconsequential will not be prevented or detected by the North Central Michigan College's internal control over financial reporting. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a significant deficiency over financial reporting. This deficiency is referenced as 2008-1.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the North Central Michigan College's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider significant deficiency 2008-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether North Central Michigan College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

North Central Michigan College's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit North Central Michigan College's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Trustees, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Smolinski & Christman, P.C.*

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*Certified Public Accountants*

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October 7, 2008

REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM  
AND INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Trustees of  
North Central Michigan College:

Compliance

We have audited the compliance of North Central Michigan College, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2008. North Central Michigan College's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of North Central Michigan College's management. Our responsibility is to express an opinion on North Central Michigan College's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about North Central Michigan College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on North Central Michigan College's compliance with those requirements.

As described in item 2008-2 in the accompanying schedule of findings and questioned costs, North Central Michigan College, did not comply with requirements regarding maintaining eligibility that are applicable to its Student Financial Assistance Program Cluster. Compliance with such requirements is necessary, in our opinion, for North Central Michigan College, to comply with requirements applicable to that program.

Board of Trustees  
North Central Michigan College

In our opinion, except for the noncompliance described in the preceding paragraph, North Central Michigan College, complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2008.

Internal Control Over Compliance

The management of North Central Michigan College, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered North Central Michigan College's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of North Central Michigan College's internal control over compliance.

*A control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

*A material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses as defined above.

North Central Michigan College's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit North Central Michigan College's response and, accordingly, we express no opinion on it.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of North Central Michigan College as of and for the year ended June 30, 2008 and have issued our report thereon dated October 7, 2008. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Trustees, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Smolinski & Christman, P.C.* 

NORTH CENTRAL MICHIGAN COLLEGE  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
for the year ended June 30, 2008

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Grantor's Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Education:</u>			
Student Financial Assistance Program Cluster:			
Federal Supplemental Educational Opportunity Grant Program	84.007		\$ 49,154
Federal Work Study	84.033		50,000
Federal Pell Grant Program	84.063		2,174,283
Federal Academic Competitiveness Grant Program	84.375		<u>9,900</u>
Total Student Financial Assistance Program Cluster			2,283,337
Passed through Michigan Department of Labor & Economic Growth:			
Carl D. Perkins Vocational and Technical Education Act of 1998:			
Regional Allocation	84.048A	V048A070022 8021-21	121,146
Local Administration		V048A070022 8025-21	18,059
Professional Development: Fast Track		V048A070022 8029-21	1,836
Entrepreneurial Initiative		V048A070022 7027-7	20,450
Tech-Prep Education (passed through Char-Em ISD)	84.243A		8,441
Tech-Prep Education (passed through Alpena Public Schools)	84.243A		<u>3,933</u>
Total passed through Michigan Department of Labor & Economic Growth			<u>173,865</u>
Total U.S. Department of Education			2,457,202
<u>U.S. Department of Labor:</u>			
Passed through Northeast Michigan Consortium:			
Employment Services	17.207		130,995
No Worker Left Behind	17.207		34,577
WIA Enhanced Resource Room Services	17.255		60,000
WIA Youth Activities	17.259		236,827
WIA Statewide Incumbent Worker Training	17.267		<u>21,632</u>
Total U.S. Department of Labor			<u>484,031</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$2,941,233</u></u>

The accompanying notes are an integral part of this schedule.

NORTH CENTRAL MICHIGAN COLLEGE  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
for the year ended June 30, 2008

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NOTES:

- A. Basis of presentation - The accompanying schedule of expenditures of federal awards includes the federal grant activity of North Central Michigan College and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with OMB Circular A-133 and agrees with the amount presented for federal grants and contracts and Pell grant nonoperating revenue on the statement of revenue, expenses and changes in net assets for the year ended June 30, 2008 as reconciled below:

Expenditures of federal awards	\$2,941,233
Carryover from prior year grants (Tech-Prep Education, Employment Services and WIA Statewide Incumbent Worker Training)	<u>3,619</u>
Total federal expenditures	<u><u>\$2,944,852</u></u>
Federal grants and contracts revenue	\$ 770,569
Pell grant nonoperating revenue	<u>2,174,283</u>
Total federal revenue	<u><u>\$2,944,852</u></u>

- B. During the year ended June 30, 2008, North Central Michigan College processed the following amount of new loans under the Federal Family Education Loan Program, which includes the Stafford Loan and Parent Loan for Undergraduate Student programs:

Federal CFDA <u>Number</u>	Amount <u>Authorized</u>
84.032	\$1,971,150

- C. The threshold for determining Type A and B programs was \$300,000. The value of loans under the Family Federal Education Loan Program have been excluded from the threshold.



NORTH CENTRAL MICHIGAN COLLEGE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
for the year ended June 30, 2008

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Section I - Summary of Auditors' Results

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***Financial Statements***

Type of auditors' report issued: *Unqualified*

Internal control over financial reporting:

- Material weakness(es) identified?   X   Yes        No
- Significant deficiency(ies) identified that are not considered to be material weaknesses?        Yes   X   None reported

Noncompliance material to financial statements noted?        Yes   X   No

***Federal Awards***

Internal control over major programs:

- Material weakness(es) identified?        Yes   X   No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)?        Yes   X   None reported

Type of auditors' report issued on compliance for major programs: *Qualified*

Any audit findings disclosed that are required to be reported with Section.510(a) of Circular A-133?   X   Yes        No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>84.007, 84.033, 84.063, 84.375</u>	<u>Student Financial Assistance Program Cluster</u>

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee?        Yes   X   No

NORTH CENTRAL MICHIGAN COLLEGE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
for the year ended June 30, 2008

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Section II - Financial Statement Findings

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**2008-1**

Criteria: Statement on Auditing Standards #112 titled *Communicating Internal Control Related Matters Identified in an Audit* (issued May, 2006), requires communication, in writing, of deficiencies in internal control that are noted during our audit.

Condition: Bank reconciliations were not prepared for the last four months of the current fiscal year.

Recommendation: To properly protect and account for the College's finances, procedures should be implemented to insure this important financial function is performed in a timely manner.

Response: The College agrees with the recommendation. The situation arose during a time of significant employee turnover in the accounting area. There was limited time available to perform some day to day functions, however, the issue has been addressed and reconciliations are currently being performed in a timely manner.

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Section III - Federal Award Findings and Questioned Costs

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**2008-2**

Criteria: Maintaining Eligibility - The Department of Education is required to be notified of a change in the chief fiscal officer within 10 days (34 CFR 600.21(a)(9)).

Condition: Notification of the change in the Dean of Business Services (chief fiscal officer) was made to the Department of Education after the deadline.

Effect: The grantee was in violation of the requirement.

Recommendation: Procedures be implemented to insure that the Department of Education is properly notified of any changes as required.

Response: The grantee agrees with the recommendation and the Department of Education was notified immediately upon discovery of the error.

NORTH CENTRAL MICHIGAN COLLEGE  
SCHEDULE OF PRIOR AUDIT FINDINGS  
for the year ended June 30, 2008

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**2007-1**

Condition: Information on the terms and conditions for Federal Education Loan Deferments was not properly disclosed to students.

Recommendation: Procedures be implemented to insure that students receiving federal education loans are notified of the terms and conditions under which they may obtain deferments.

Current Status: The grantee understands and has complied with the requirements in the current year.

**2007-2**

Condition: One student received a Subsidized loan that was \$342 in excess of need. This was not considered a questioned cost since the loan was changed to an Unsubsidized loan (as a replacement of the Expected Family Contribution resulting in no over-award).

Recommendation: Procedures that were in place should have been sufficient to identify the error. We recommend that the staff attempt to be more cognizant of the potential for issues to arise in this area if procedures are overlooked.

Current Status: The grantee understands and has complied with the requirements in the current year.

**2007-3**

Condition: One student was not contacted within 30 days of the college becoming aware that the student had completely withdrawn.

Recommendation: Procedures be implemented to insure exit loan counseling is provided to student borrowers in a timely manner.

Current Status: Testing during the current year indicates that the grantee has implemented proper procedures to insure exit loan counseling is completed in a timely manner.

**2007-4**

Condition: Three students did not complete required exit loan counseling.

Recommendation: Procedures be implemented to insure exit loan counseling is provided to student borrowers when necessary.

Current Status: Testing during the current year indicates that proper procedures were in place and operating to insure exit loan counseling was completed as required.



## CORRECTIVE ACTION PLAN

U.S. Department of Education

North Central Michigan College respectfully submits the following corrective action plan for the year ended June 30, 2008.

Name and address of independent public accounting firm:

Smolinski & Christman, P.C.  
555 Michigan Street  
Petoskey, Michigan 49770

Audit period: July 1, 2007 through June 30, 2008

The findings from the June 30, 2008, schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

### FINDING - FINANCIAL STATEMENTS AUDIT

#### SIGNIFICANT DEFICIENCY

##### 2008-1 MATERIAL WEAKNESS - Bank Reconciliations

*Recommendation:* Procedures should be implemented to insure this important financial function is performed in a timely manner.

*Action Taken:* We concur with the recommendation. The situation arose during a time of significant employee turnover in the accounting area. There was limited time available to perform some day to day functions, however, the issue has been addressed and reconciliations are currently being performed in a timely manner.

### FINDING - A-133 AUDIT

#### COMPLIANCE VIOLATION

##### 2008-2 Maintaining Eligibility - Notification of Change in Chief Fiscal Officer

*Recommendation:* Procedures be implemented to insure that the Department of Education is properly notified of any changes as required.

*Action Taken:* We concur with the recommendation. Notification to the Department of Education was made immediately upon discovery of the error. Procedures are now in place so that timely notification will be made in the future.

*Smolinski & Christman, P.C.*  
*Certified Public Accountants*

*Janice W. Smolinski, C.P.A.*  
*Karin R. Christman, C.P.A.*  
*Mona C. O'Neil, C.P.A.*  
*Daniel D. Rasmussen, C.P.A.*  
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*555 Michigan Street*  
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*(231) 347-5555*  
*Fax: (231) 347-5639*

*Adam B. Caren, C.P.A.*  
*Troy A. Slater, C.P.A.*

October 7, 2008

To the Finance Committee of the Board of Trustees of  
North Central Michigan College:

We have audited the financial statements of North Central Michigan College (the College) for the years ended June 30, 2008 and 2007, and have issued our report thereon dated October 7, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter dated July 2, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered North Central Michigan College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether North Central Michigan College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also in accordance with OMB Circular A-133, we examined, on a test basis, evidence about North Central Michigan College's compliance with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" applicable to each of its major federal programs for the purpose of expressing an opinion on North Central Michigan College's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on North Central Michigan College's compliance with those requirements.

### Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to the Dean of Technology and Business Services in our discussion about planning matters on July 2, 2008.

### Significant Audit Findings

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the College are described in Note A to the financial statements. As described in Note A to the financial statements, the College changed accounting policies related to the financial statement presentation of Pell grant revenue. This change was based on GASB Clarification during the current year. As described in Note L to the financial statements, the College also began recording an allowance for uncollectible student accounts receivable. This change was made by correcting the prior year's financial statements to reflect the allowance that would have been recorded for the year ended June 30, 2007. We noted no transactions entered into by the College during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was management's estimate of the uncollectible accounts is based on previous experience in the collections area. We evaluated the key factors and assumptions used in developing the allowance for uncollectible accounts in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear.

#### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

#### *Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.



*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated October 7, 2008.

*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the College's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the College's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Finance Committee of the Board of Trustees and management of North Central Michigan College and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

*Smolinski & Christman, P.C.*

Smolinski & Christman, P.C.

